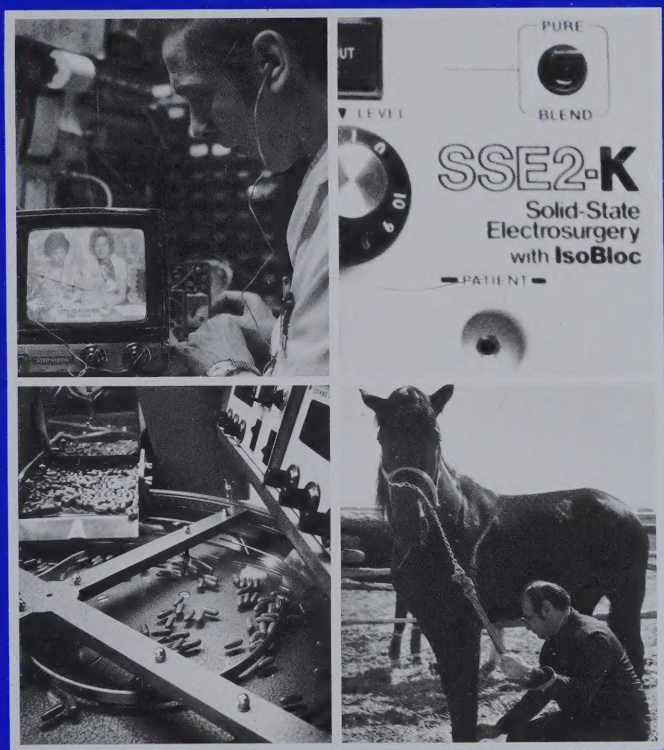
Sterisystems Ltd.



Annual Report 1975

Sterisystems Ltd.

BOARD OF DIRECTORS

Peter A. Allen, TORONTO, VICE PRESIDENT, LITTLE LONG LAC MINES LTD.

† Adrian M. Doull, TORONTO, VICE PRESIDENT AND DIRECTOR, ANGLO AMERICAN CORPORATION OF CANADA LIMITED

*† Michael B. Harding, MONTREAL, ASSISTANT GENERAL MANAGER – FINANCE, CREDIT FONCIER FRANCO-CANADIAN

* Paul G. Jeffrey, TORONTO, PRESIDENT AND CHIEF EXECUTIVE OFFICER, STERISYSTEMS LTD.

† Michael J. Needham, TORONTO, VICE PRESIDENT, HELIX INVESTMENTS LIMITED

Maurice Parent, MONTREAL, PRESIDENT, FAMILEX PRODUCTS LTD.

* Donald C. Webster, TORONTO, PRESIDENT, HELIX INVESTMENTS LIMITED

*Members of the Executive Committee †Members of the Audit Committee

OFFICERS

Donald C. Webster, CHAIRMAN OF THE BOARD

Paul G. Jeffrey, PRESIDENT AND CHIEF EXECUTIVE OFFICER

Douglas H. Last, VICE PRESIDENT

Harold M. Pipher, VICE PRESIDENT

Dennis W. Bryant, VICE PRESIDENT

J. Michael Usatis, VICE PRESIDENT

Arthur E. Rick, VICE PRESIDENT

AUDITORS

Thorne Riddell & Co.

TRANSFER AGENT AND REGISTRAR

The Canada Trust Company, TORONTO

STERISYSTEMS LTD.

Head Office 47 BAYWOOD ROAD, REXDALE (TORONTO), ONTARIO M9V 3Y9

375 LEBEAU BOULEVARD, VILLE ST-LAURENT (MONTREAL), QUEBEC H4N 1S2

796-9 ALDERBRIDGE WAY, RICHMOND (VANCOUVER), BRITISH COLUMBIA V6X 2A6

WEBBER PHARMACEUTICALS LIMITED

14 RONSON DRIVE, REXDALE (TORONTO), ONTARIO M9W 1B2

This annual report covers the eighth year of operations for Sterisystems Ltd., its fourth year as a public company.

Sterisystems Ltd. operates nationally in Canada in the health care field through three divisions — Hospital Services Division, engaged in hospital patient television rental, hospital communication systems and in-hospital flower sales; Hospital Sales Division, distributing electronic medical and surgical instruments; and Webber Pharmaceuticals Division, Canada's original and leading manufacturer of vitamin E products.

STERISYSTEMS LTD.
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF INCOME
(not audited)

For the six months ended June 28, 1974

	1974	1973
REVENUE	$3,545,378	$2,660,052
Cost of sales and expenses other than undernoted	2,380,660	1,624,596
Income before the following items	1,164,718	1,035,456
Interest on debt	105,079	94,858
Depreciation and amortization	280,200	259,578
	385,279	354,436
	779,439	681,020
Dividend income	10,000	10,000
Income before income taxes	789,439	691,020
Income taxes—current	250,200	231,050
—deferred	123,000	93,600
	373,200	324,650
Net income for the period	$ 416,239	$ 366,370
Earnings per share fully diluted	$ .31	$ .27

CONSOLIDATED STATEMENT OF DEFICIT
(not audited)

For the six months ended June 28, 1974

	1974	1973
Deficit (retained earnings) at beginning of period	$2,375,810	$ (170,890)
Goodwill written off prior to beginning of period		684,936
Deficit as restated	2,375,810	514,046
Net income for the period	416,239	366,370
	1,959,571	147,676
Goodwill acquired during the year representing the excess of cost of shares acquired in subsidiary company over their net book value		2,560,035
Incorporation expense written off		3,806
		2,563,841
DEFICIT at end of period	$1,959,571	$2,711,517

STERISYSTEMS LTD.
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS
(not audited)

For the six months ended June 28, 1974

	1974	1973
SOURCE OF FUNDS		
Operations		
Net income for the period	$ 416,239	$ 366,370
Items not involving current funds		
Depreciation and amortization	280,200	259,578
Deferred Income Taxes	123,000	93,600
	819,439	719,548
Non-interest bearing note		1,750,000
Issue of common shares for cash		1,328,550
Proceeds of Sale of Investments		8,757
	819,439	3,806,855
APPLICATION OF FUNDS		
Investment acquired		1,381
Acquisition of subsidiary company less working capital acquired (1973—$374,659)		2,560,045
Long-term debt repaid or included in current liabilities	590,014	389,434
Deferred Engineering Costs		2,882
Increase in Installments Receivable	16,173	19,519
Addition to Fixed Assets—net	614,665	345,505
	1,220,852	3,318,766
Increase (Decrease) in Working Capital	(401,413)	488,089
Working Capital deficiency at beginning of period	163,977	(170,618)
Working Capital deficiency at end of period	$ 565,390	$ 317,471

STERISYSTEMS LTD.

47 BAYWOOD ROAD, REXDALE, ONTARIO.

AR26

INTERIM REPORT TO SHAREHOLDERS

FOR SIX MONTHS ENDED JUNE 28, 1974

REPORT TO SHAREHOLDERS

Substantial increases in revenues and net income for the first six months of the year were achieved in line with the objectives we set at the end of last year.

Revenues for the six months ended June 28, 1974 rose to $3,542,473, compared to $2,658,011 recorded in the first half of 1973. Net income for the period increased to $416,239 over the $366,370 earned last year. Earnings per share based on an increased number of shares outstanding were $.31 for the first half of 1974, compared to $.27.

During this period your Company implemented a number of changes which should lead to an even stronger second half performance, particularly in net income. The costs of these actions were fully expensed as they were incurred during the past six months, and this is reflected in the level of net income. The resulting benefits should lead to a greater increase in sales and earnings in the second half of the year.

These improvements mainly involved our Webber Pharmaceuticals Division. The sales force for Webber's products was doubled, preparations were made for the introduction of four new exciting Webber products this September, and the packaging of all Webber products has been redesigned to improve consumer recognition.

These efforts and the continued excellent performance of our Hospital Services Division, together with a substantial systems order backlog, are indeed cause for considerable optimism. We anticipate that our Company will meet the considerable growth objectives we have established for it this year.

On behalf of the Board

PAUL G. JEFFREY
President

August 12, 1974

STERISYSTEMS LTD.

(Incorporated under the laws of Canada)
AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET

(not audited)

June 28, 1974
(with comparative figures at June 29, 1973)

ASSETS

	1974	1973
CURRENT ASSETS		
Cash....................	$	$ *82,407*
Marketable Securities—at cost (Market Value 1973—$35,437)..............		*10,745*
Accounts Receivable........	808,011	*662,311*
Inventory valued at lower of cost and net realizable value.	1,065,248	*825,821*
Prepaid Expenses..........	214,902	*69,568*
	2,088,161	*1,650,852*
INVESTMENT		
Shares, at cost............	1,434	*1,381*
INSTALLMENT RECEIVABLES Less Current Portion.........	143,516	*119,804*
FIXED ASSETS		
Television sets, hospital installations, other equipment and leasehold improvements at cost.................	8,206,194	*6,113,826*
Less accumulated depreciation and amortization..........	1,797,504	*1,325,261*
	6,408,690	*4,788,565*
PATENTS, LICENSES, at cost less amortization............	108,334	*120,002*
	$8,750,135	*$6,680,604*

LIABILITIES

	1974	1973
CURRENT LIABILITIES		
Bank Overdraft............	$ 174,158	$
Bank Loans..............	700,000	*355,000*
Accounts payable and accrued liabilities...............	1,032,840	*247,399*
Income taxes payable........	234,553	*231,570*
Principal due within one year on long-term debt.........	512,000	*499,412*
	2,653,551	*1,333,381*
LONG-TERM DEBT..........	2,231,335	*2,950,535*
DEFERRED INCOME TAXES....	725,190	*260,325*

SHAREHOLDERS' EQUITY

	1974	1973
CAPITAL STOCK		
Authorized— 3,000,000 common shares without par value		
Issued— 1,359,873 common shares (1973—1,289,373).......	5,099,630	*4,847,880*
DEFICIT...................	1,959,571	*2,711,517*
	3,140,059	*2,136,363*
	$8,750,135	*$6,680,604*

Cancorp

FROM:

File

Sterisystems Ltd.
~~47 Baywood Road~~
Rexdale, Ontario
M9V 3Y9

FOR FURTHER INFORMATION:

Petlock, Ruder & Finn Limited
Suite 500, 101 Bloor Street W.
Toronto, Ontario M5S 1P7
Telephone: (416) 966-3570

STERISYSTEMS REPORTS RECORD SIX MONTH REVENUES AND INCOME

	For the Six Months Ended June 28	
	1974	1973
Revenue	$3,542,473	$2,658,011
Net Income before taxes	789,439	691,020
Net Income	$ 416,239	$ 366,370
Earnings per share fully diluted	31¢	27¢
Number of shares outstanding	1,436,773	1,335,025

TORONTO, (August 12, 1974) -- Sterisystems Ltd. achieved record revenues and income for the six month period ended June 28, 1974, Paul G. Jeffrey, president, today announced.

- more -

Mr. Jeffrey said that revenues for the first half of the year rose to $3,542,473 compared to $2,658,011 recorded in the same period last year. Net income increased to $416,239 over the $366,370 earned last year. Earnings per share based on a greater number of shares outstanding for the period were $0.31 compared to $0.27 earned in the first half of last year. Shares outstanding for the period were 1,436,773 compared to 1,335,023 for the corresponding months of 1973.

Earnings gains for the first half would have been even greater, Mr. Jeffrey noted, however, Sterisystems implemented a number of improvements during the period which were fully expensed against earnings as they were incurred.

"The company's first half performance was on target with our growth projections for the year. The changes made during these past six months should ensure still stronger second half growth in sales and earnings," Mr. Jeffrey forecast.

Mr. Jeffrey explained that the changes accomplished during this period mainly involved the company's Webber Pharmaceuticals division. The sales force for Webber's products was doubled; preparations were made for the introduction of four new Webber products this September, and the packaging of all Webber products has been redesigned to improve consumer recognition.

Sterisystems Ltd. is a publicly-owned company operating in the health care field. Its Hospital Services Division supplies patient television rental, electronic medical and surgical instruments, communications systems and in-hospital flower services. The Webber Pharmaceuticals division is Canada's leading manufacturer of vitamin E products.

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#2018

Financial Highlights	1975	1974
Revenue	$ 9,049,000	$7,676,000
Cash flow	$ 2,140,000	$2,322,000
Profit for the year	$ 878,000	$1,002,000
Earnings per share — fully diluted	$ 0.60	$ 0.70
Common shares outstanding at year-end	1,402,853	1,359,873
Shareholders' equity	$ 4,722,000	3,726,000
Total Assets	$11,476,000	$9,733,000

The year 1975 was one in which your Company faced several difficult and challenging situations. It was also a year in which significant progress was achieved in a number of important areas.

Revenues increased 18% from $7,675,886 in 1974 to $9,049,127 in 1975. Net income after tax declined 12% from $1,002,059 in 1974 to $877,943 in 1975. Net income after tax in 1975 included an extraordinary gain of $73,558 from the sale of an investment in shares. Fully diluted earnings per share declined from 70¢ per share in 1974 to 60¢ per share in 1975 after inclusion of the extraordinary gain. Significant improvement in liquidity was achieved with our working capital deficiency being reduced from $593,214 in 1974 to $42,830 in 1975.

An important segment of our business, that of supplying hospital patient television rental systems, was hampered by chronic labour problems throughout the hospital industry during 1975. This problem is again with us in 1976, especially in our Quebec markets. Moreover, the communications with head office which are so vital to the administration of this business were disrupted twice by postal strikes, once for 12 days in the first quarter, and again for 42 days in the last quarter. Despite these difficulties, your Company continued to show steady revenue growth throughout most of the year, averaging 25% over the first three quarters. The prolonged mail strike in the fourth quarter cut growth to 3.5% for that period, reducing the overall revenue increase for the year to 18%. Abnormally high operating costs and lower than anticipated sales during the strike period had an adverse impact on profit, reducing it to a level below 1974. The shortfall was only partially offset by an extraordinary gain of $73,558.

Your Company's financial position was strengthened during the year. A reduction in long-term debt was achieved, despite the acquisition of a new company. The working capital deficiency has been reduced by approximately $550,000, significantly improving liquidity. Further debt reductions are expected in 1976.

Among the noteworthy developments of the year:

- the acquisition of Sterivet Laboratories Limited has opened up important new development opportunities for your Company. Sales of Sterivet have doubled since acquisition, principally as a result of adding to its product line the former Webber product, National Supplement, as well as Palosein, the veterinary version of the anti-inflammatory drug, Orgotein. These products, combined with Sterivet's established line, create a strong presence in the veterinary field.

• rapid expansion in the veterinary market is being pursued through the establishment of an American subsidiary, Sterivet Inc., as well as through the arrangement of distributorships overseas.

• further progress is being made in implementing the agreement with Diagnostic Data, Inc. to manufacture and sell Orgotein and Palosein. Orgotein continues to perform well in clinical trials leading to its approval for human use, while Palosein, mentioned above, has already produced substantial sales in the equine market.

• while a decline in consumer spending depressed sales of Webber Pharmaceuticals' vitamin E products during the first three quarters of 1975, strong sales have now resumed. Webber has achieved an increase in its overall share of this market, and has enjoyed excellent results in the first quarter of 1976.

• the addition of a number of new products, both from existing suppliers and from new companies, has produced a commensurate increase in sales in the Medical Products Division. Expansion in this division is continuing.

While pursuing these expansion and diversification opportunities, your Company has not neglected the maintenance of its leading position in hospital television rental systems. Our market share continues to increase, and our relationships with client hospitals are sound. Supervision and rental attendant programs have been upgraded in order to enhance the quality of our service. Rate adjustments have been accepted by most hospitals in step with cost inflation, but the excellent economics of our systems still enable us to offer our service at rates well below equivalent services in the U.S.

New emphasis is now being placed on lease sales to smaller hospitals as well as on sales of other types of hospital communications equipment.

As of August, 1975, your Company's shares have been listed on the Toronto Stock Exchange.

The strong growth pattern again being exhibited by all divisions, and especially Webber, indicates that your Company has put the difficulties of the last quarter of 1975 well behind it. The introduction of new products, as well as the acquisition and establishment of new ventures, has broadened our overall business base. These moves both enhance our opportunities for future growth and, at the same time, reduce our vulnerability to negative trends in any single market.

On behalf of the Board of Directors, I wish to thank all employees for their dedication during the travails of last year and for the renewed energy they are bringing to our current ventures.

P.G. Jeffrey

Paul G. Jeffrey, PRESIDENT

The Hospital Services Division further consolidated its dominant position in the patient television rental field during 1975. At the same time, important steps were taken to expand the Division's participation in related markets for hospital communications equipment. Unfortunately, profit growth was not commensurate with the increase in revenues achieved, due to excessive costs and administrative difficulties occasioned by the postal strike and labour unrest in hospitals in most parts of Canada in 1975.

Technicians modify each set for Sterisystems' low voltage personalized television system.

Sterisystems now serves over 235 active-treatment hospitals, containing approximately 55,000 beds. This represents some 65% of the prime Canadian market for this type of service. While further growth in market share is anticipated, greater emphasis is now being placed on the maintenance of existing relationships with client hospitals. Renegotiation of contracts is usually completed well in advance of expiry dates, and the Division has developed an excellent base of satisfied, long-term customers.

Of course, the systems themselves are also being constantly improved to match or exceed competitive systems in the market. The introduction of colour sets is now underway, as is a program to up-grade rental attendants through closer supervision and better training.

The establishment of regional managers in key areas across the country has improved operating efficiency and increased the overall utilization of existing installations. Considerable potential exists for further increases in productivity, and this is one of the prime objectives of the new regional management level.

Another area of potential expansion is the market for smaller-scale leased installations in hospitals with less than 250 beds. An entry into this market has been well-received and substantial growth is expected in 1976.

Rental rates are being adjusted in response to inflationary pressures, but remain strongly competitive by any standard, owing to the superior economics of the low-voltage coaxial cables used by Sterisystems.

The hospital industry continues to be plagued by labour difficulties in several provinces. While these situations are somewhat disruptive, the essential nature of hospital services makes a prolonged interruption of operations in any region unlikely.

The Division's participation in other segments of the hospital services market continues to be enlarged. A new digital staff register system has been introduced, and has enjoyed excellent acceptance. The system links the incoming and outgoing doctors' register panel to a central computer by means of a single coaxial cable. It maintains a running record of present and absent staff, records, stores and delivers routine messages, and can also store and recall other staff register information. It eliminates costly wiring systems as well as greatly reducing switchboard traffic, and is now the preferred system for new hospitals.

The addition of new products and enhanced productivity enabled the Division to increase market shares and volumes despite the fact that 1975 was a year of cutbacks in hospital spending. Most of the beds being taken out of service are in smaller and older facilities which have not been part of the Sterisystems market. Their elimination can only increase patient traffic in the larger centrally-located hospitals served by the Division.

In an effort to assist the health care industry in controlling the rising cost of hospital services, a program of distribution and showing of videotapes on health subjects has been instituted. Tapes are being produced by major Canadian teaching hospitals, and will be shown on cable system channels in some communities. The objective is to reduce the incidence of hospitalization by improving public knowledge of better self-care and preventative medicine.


Valleylab
K
Solid State
Electrosurgery
with IsoBloc

A major investment in future growth was made by the Medical Products Division during 1975. Expansion of both the product line and the sales force resulted in a substantial increase in sales volume. This increase was largely offset by associated cost increases, but the Division is now in a much stronger growth position. Substantial increases in the productivity of the existing sales force are anticipated in 1976 and beyond.

A large number of new products from existing manufacturers, as well as several new complete lines, were added during the year. The introduction of these products has both broadened the Division's overall business base and enhanced its ability to sell comprehensive product systems, rather than simply isolated items.

Among the new products added are:

- two new electronic monitors used to control the infusing of intravenous solutions, from Ivac Corporation,
- two new heart defibrillators and an ultrasonic probe from Physio-Control,
- two new fetal heart monitoring instruments from Sonicaid, and,
- a major new disposable product, and adhesive grounding pad for use during electrosurgical procedures, from Valleylab. This product further strengthens the Division's already solid position in this field.

Among the new product lines added during the year were:

- a complete line of portable, battery operated ECG monitors for use in the operating room and critical care areas, from Tektronix Inc. This company has an outstanding reputation in the instrument field, and its products are in great demand.
- a line of disposable ECG electrodes, patient cables and lead wires, from Andover Medical, Inc., which is fully compatible with all monitoring equipment now in use.

Additional products from virtually all the companies mentioned above will become available during 1976.

These new products, particularly the complete lines, now enable the Division to offer hospitals complete systems of instruments and related items. For example, the combination of Tektronix monitoring equipment and Andover disposables constitutes a comprehensive cardiac care system.

The marketing of product systems permits both greater sales penetration and more efficient use of the total sales force.

The sales force itself also made significant progress during the year, achieving a good increase in individual productivity. This improvement was principally the result of the increasing experience and expertise of the Division's salesmen, who are now maturing in the hospital field. The improved product line they are now offering to customers also strengthen their position. Many products now being marketed require a considerable amount of in-hospital training and follow-up servicing. In performing these functions, salesmen build strong relationships with hospital staff, while steadily increasing their own product knowledge.

Support for the sales force has been stepped up in the form of advertising in selected hospital and medical journals, production of a new sales catalogue, and participation in major conventions.

The Medical Products Division has concentrated on developing exclusive representation of a specialized group of electromedical instruments. The Division's position in this field, as a national organization with full service support, places it ahead of most competing firms. In addition, as most of the instruments marketed by the Division are used in critical care and operating room situations, the market for them is not as vulnerable to budget cutbacks or cyclic declines. Growth prospects for present and planned product lines are excellent.

An important aspect of the salesman's job is providing demonstrations and in-hospital training in the use of the equipment he sells.


webber
100 capsules
succinate
DIN 202746
100% natural source

The overall decline in consumer spending on discretionary items depressed sales in Webber's vitamin E products in the first three quarters of 1975. Sales were further depressed by the disruption of mail order business due to the postal strike in the last quarter. These difficulties provided an occasion for cost reduction and improvements in operating efficiency which are already showing positive results.

Demand for vitamin E products has now rebounded, and Webber has increased its overall market share.

A new timed-release vitamin C supplement was introduced at year-end, and volume is developing according to plan. This product should contribute appropriately to sales and profit growth in 1976.

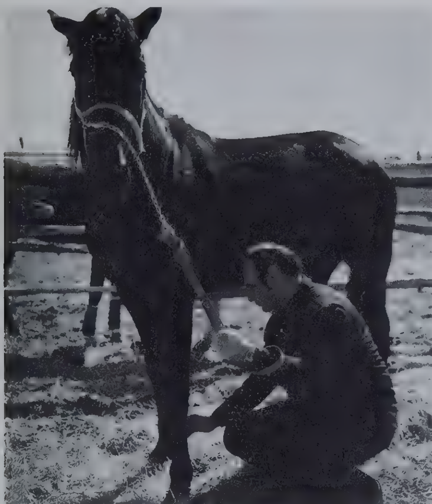
The progress of Orgotein towards Health Protection Board approval for human use is encouraging. Human clinical trials have now commenced in two centres in Canada and eleven in the United States. In addition, the drug has been approved for sale in the Philippines and Austria, and four major papers have been published reporting successful trials in other European countries. This drug's potential impact on future sales volume has already been demonstrated by the performance of its veterinary version, Palosein, in the equine market.

A prime objective in the expansion of Webber's product line is the establishment of a position as a supplier of ethical or prescription drugs, particularly those of a unique nature, as a complement to the existing over-the-counter line. In pursuit of this goal, investment in research and development has been increased, and several new or improved drugs are now approaching marketable status.

Overall, the integration of new products into existing lines has provided insulation against any future periodic declines in demand for particular items. At the same time, considerable potential for growth in new areas has been created. This Division continues to seek additional products, and maintains ongoing contact with a number of foreign drug companies active in new product research and development.

Improvements in production equipment have increased Webber's manufacturing efficiency.

Webber's new vitamin E labels feature easy recognition of the widely-respected Webber name.



Race horses, both thoroughbred and standard bred, are a major market for Sterivet's product lines.

The acquisition of Sterivet Laboratories was the key to a major expansion of this Division's position in the veterinary field during 1975.

Sterivet is an established manufacturer and distributor of veterinary pharmaceuticals designed specifically to serve the large and fast-growing equine market. The Company's product line includes hormones, antibiotics, anti-inflammatories and injectible vitamins.

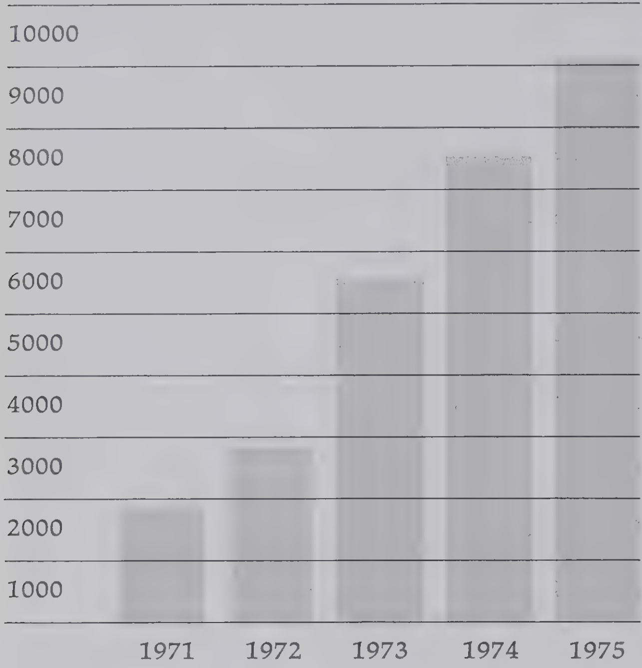
An excellent fit has been achieved between Sterivet and Webber Pharmaceuticals, under which all Webber veterinary products including Palosein, the veterinary version of Orgotein, are now sold under the Sterivet name. This arrangement provides an established and efficient channel for the marketing of all veterinary products, and has produced sales increases for both companies. Sterivet's largest volume product currently is National Supplement, a former Webber product.

A new subsidiary, Sterivet, Inc., is being established in the United States in order to introduce Sterivet products into the very large American equine market. An agreement is also being concluded with Diagnostic Data, Inc. to enable the new company to market Palosein in the United States as well, providing a solid initial base in a rapidly expanding product area. The Company is expected to commence operation about mid-year, 1976.

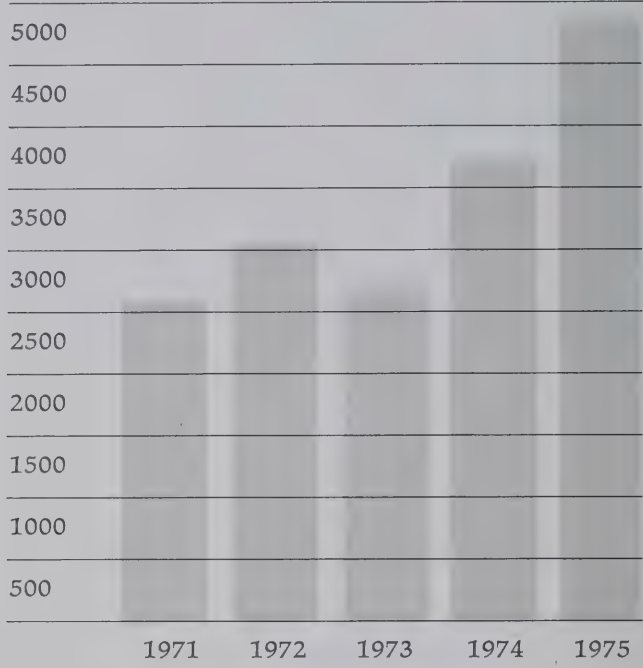
Two new exclusive products are expected to become available during the next six months. These, combined with three new products introduced last year, will give the Division a comprehensive line of veterinary products, and will substantially increase marketing efficiency through existing channels.

In addition, the veterinary line is now being introduced into a number of international markets. Distributorships have been established in South Africa, Australia and New Zealand, and agreements will be completed shortly for the European Common Market and the Comintern countries.

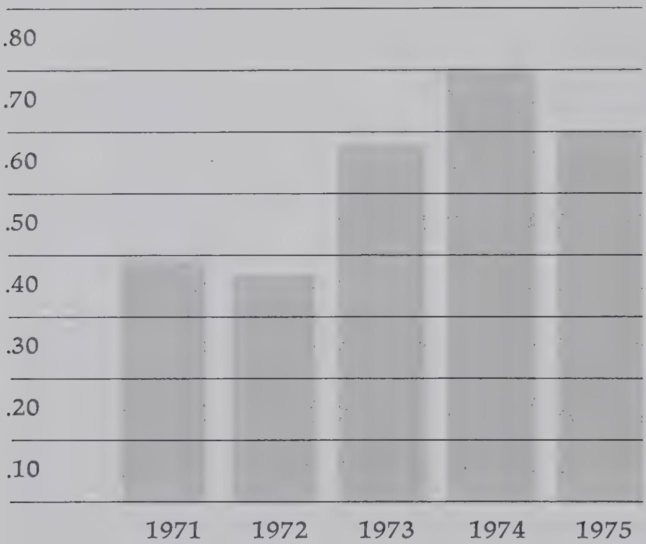
Revenue ($000)



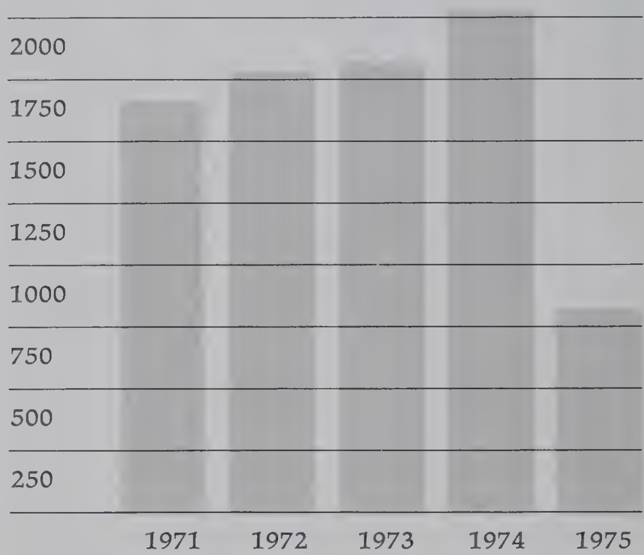
Shareholders Equity ($000)

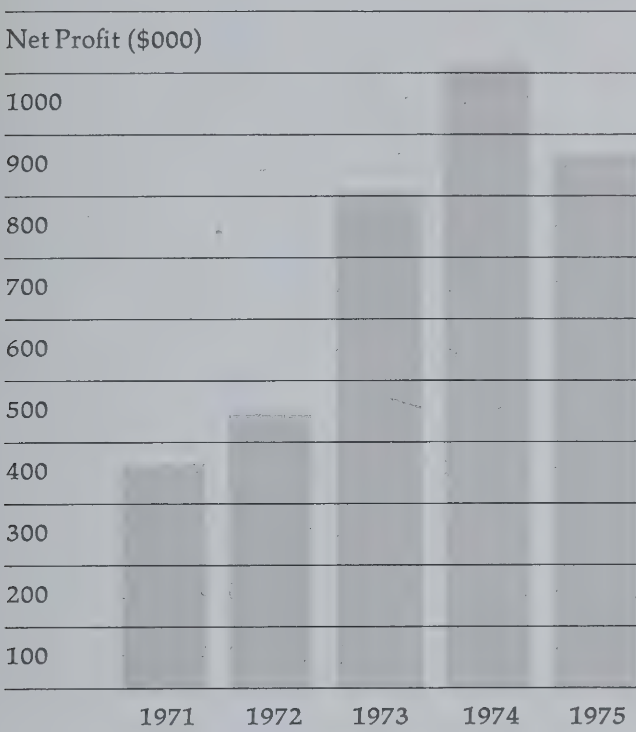


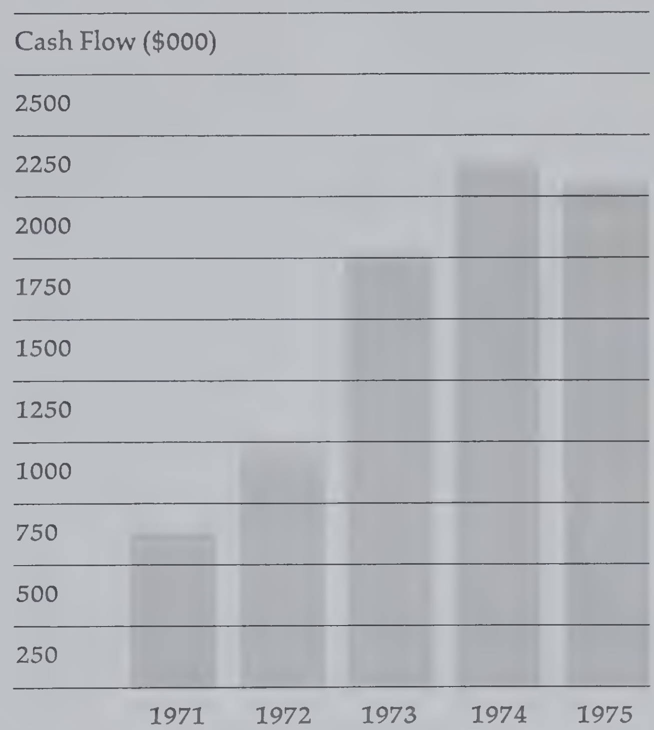
Earnings per share ($) (Fully diluted)

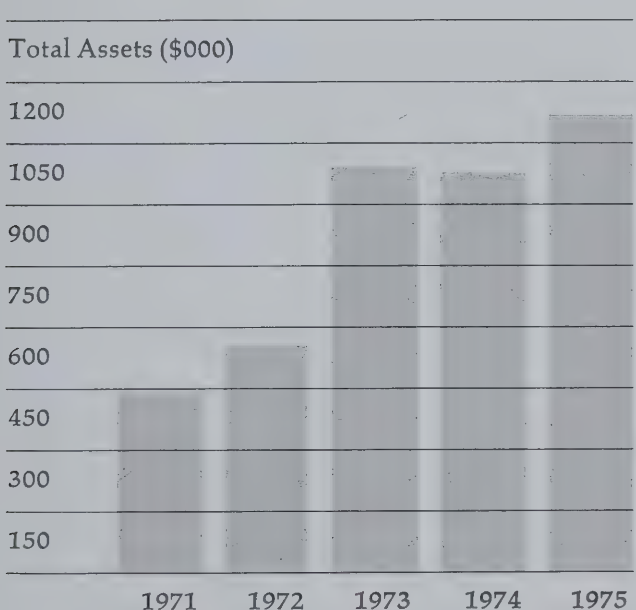


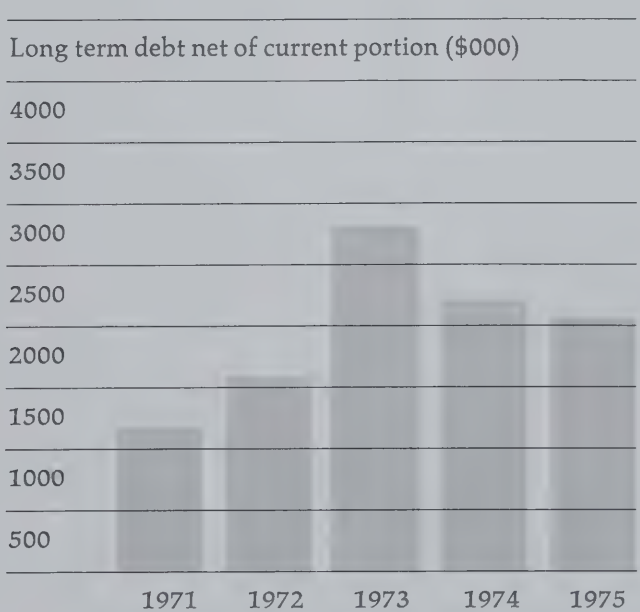
Capital Expenditures ($000)




Net Profit ($000)
1000
900
800
700
600
500
400
300
200
100
1971
1972
1973
1974
1975


Cash Flow ($000)
2500
2250
2000
1750
1500
1250
1000
750
500
250
1971
1972
1973
1974
1975


Total Assets ($000)
1200
1050
900
750
600
450
300
150
1971
1972
1973
1974
1975


Long term debt net of current portion ($000)
4000
3500
3000
2500
2000
1500
1000
500
1971
1972
1973
1974
1975

Sterisystems Ltd.
and subsidiary companies

CONSOLIDATED STATEMENT OF INCOME		53 weeks ended January 2, 1976	52 weeks ended December 27, 1974
Revenue		$9,049,127	$7,675,886
Cost of sales and expenses other than undernoted		6,327,776	4,769,775
Income before the following items		2,721,351	2,906,111
Interest expense (including interest on long term debt 1976, $144,687; 1974, $170,024)		298,294	291,680
Depreciation and amortization of fixed and intangible assets		833,822	655,464
		1,132,116	947,144
		1,589,235	1,958,967
Dividend income		10,000	20,000
Income before income taxes and extraordinary item		1,599,235	1,978,967
Income taxes	Current	292,500	312,000
	Deferred	502,350	664,908
		794,850	976,908
Income before extraordinary item		804,385	1,002,059
Gain on sale of investment in shares		73,558	
NET INCOME		$ 877,943	$1,002,059
BASIC EARNINGS PER SHARE (note 6)			
Income before extraordinary item		$.58	$.74
Net income		$.63	$.74

CONSOLIDATED STATEMENT OF DEFICIT	53 weeks ended January 2, 1976	52 weeks ended December 27, 1974
DEFICIT AT BEGINNING OF YEAR	$1,373,751	$2,375,810
Net income	877,943	1,002,059
DEFICIT AT END OF YEAR	$ 495,808	$1,373,751

Sterisystems Ltd.
and subsidiary companies

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION	53 weeks ended January 2, 1976	52 weeks ended December 27, 1974
WORKING CAPITAL DERIVED FROM		
Operations	$2,139,973	$2,322,431
Increase in long term debt	550,000	
Proceeds on disposal of investment in shares	75,000	
Proceeds on disposal of fixed assets	8,255	3,350
Increase in deferred income	83,832	34,637
Issue of common shares	118,575	
	2,975,635	2,360,418
WORKING CAPITAL APPLIED TO		
Additions to fixed assets	844,494	2,123,712
Long term debt repaid or included in current liabilities	716,778	600,620
Increase in advance to employees, less current portion	12,640	65,000
Sales licences	142,680	
Research and development	95,226	
Increase in instalment receivables	69,833	323
Acquisition of subsidiary company, less working capital acquired of $71,400	543,600	
	2,425,251	2,789,655
INCREASE (DECREASE) IN WORKING CAPITAL POSITION	550,384	(429,237)
WORKING CAPITAL DEFICIENCY AT BEGINNING OF YEAR	593,214	163,977
WORKING CAPITAL DEFICIENCY AT END OF YEAR	$ 42,830	$ 593,214

Sterisystems Ltd.
(Incorporated under the laws of Canada)
and subsidiary companies

CONSOLIDATED BALANCE SHEET ASSETS	January 2, 1976	December 27, 1974
CURRENT ASSETS		
Accounts receivable	$ 1,211,992	$1,037,003
Inventory	1,358,777	698,672
Prepaid expenses	197,672	157,451
	2,768,441	1,893,126
ADVANCE TO EMPLOYEES, less current portion (note 6)	77,640	65,000
INSTALMENT RECEIVABLES, less current portion included in accounts receivable	197,499	127,666
FIXED ASSETS (note 2)	7,573,020	7,542,457
GOODWILL, which represents excess of cost of shares of subsidiary company over net tangible assets at date of acquisition, net of amortization (note 3)	526,030	
PATENT LICENCES	95,000	105,000
SALES LICENCES AND DEFERRED RESEARCH AND DEVELOPMENT EXPENDITURES (note 4)	237,906	
	$11,475,536	$9,733,249

LIABILITIES	January 2, 1976	December 27, 1974
CURRENT LIABILITIES		
Bank advances (note 5)	$ 598,177	$ 880,980
Accounts payable and accrued liabilities	1,212,404	683,322
Income taxes payable	296,595	316,984
Principal due within one year on long term debt	704,095	603,620
	2,811,271	2,484,906
LONG TERM DEBT (note 5)	2,053,951	2,220,729
DEFERRED INCOME TAXES	1,769,448	1,267,098
DEFERRED INCOME	118,469	34,637
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (notes 5, 6 and 8) Authorized 3,000,000 Common shares without par value Issued 1,402,853 Common shares (1974, 1,359,873)	5,218,205	5,099,630
DEFICIT	495,808	1,373,751
	4,722,397	3,725,879
	$11,475,536	$9,733,249

Long term leases (note 7)

Approved by the Board, Paul G. Jeffrey, DIRECTOR, Donald C. Webster, DIRECTOR

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — 53 WEEKS ENDED JANUARY 2, 1976

1 SUMMARY OF ACCOUNTING POLICIES

(a) Principles of consolidation
The consolidated financial statements include the accounts of the company and all subsidiary companies.

(b) Inventory
Inventory is valued at the lower of cost and net realizable value.

(c) Revenue
Revenue in the financial statements includes television rentals in hospitals, equipment sales, flower sales and pharmaceutical sales. The company has contracts with hospitals to provide exclusive television rental services. The length of the original contract extends from five to eight years.

(d) Fixed assets
Included in the cost of television sets, rental equipment and hospital installations in service is the direct cost of the equipment, materials and labour and an applicable share of factory, general and administrative overhead. As contracts are extended, an additional applicable share of general and administrative overhead is charged to the cost of hospital installations.

(e) Depreciation policy
Depreciation is provided on the straight line basis using the following anual rates:
Initial costs of hospital installations — over twelve years
Subsequent costs necessary to extend contracts — over three years
Television sets and rental equipment in service — over ten years
Other equipment — varying from three to ten years
Leasehold improvements — over the length of lease
No depreciation is provided on television sets and materials for use in future hospital installations until such time as these items are in use.

(f) Goodwill on acquisition
Goodwill on acquisition is stated at cost less amortization. Amortization of the goodwill on acquisition is provided on a straight line basis over forty years.

(g) Patent licences
Patent licences are stated at cost less amortization. Amortization of the patent licences is provided on a straight line basis over seventeen years.

(h) Deferred research and development
Commencing with the year ending December 31, 1976, all research and development costs will be amortized on a straight line basis over three years.

(i) Sales licences
Sales licences are recorded at cost. The company intends to amortize these costs on a straight line basis over five years, commencing with the year ending December 30, 1977.

(j) Deferred income
The company recognizes income on long term lease contracts over the length of the lease.

2 FIXED ASSETS	January 2, 1976 Cost	Accumulated depreciation & amortization	Net	December 27, 1974 Net
Television sets and materials for use in future hospital installations	$ 158,274		$ 158,274	$ 396,703
Television sets, rental equipment and hospital installations in service	9,445,198	$2,395,909	7,049,289	6,757,767
Other equipment	496,236	189,436	306,800	316,799
Leasehold improvements	154,135	95,478	58,657	71,188
	$10,253,843	$2,680,823	$7,573,020	$7,542,457

3 ACQUISITION OF SUBSIDIARY

Effective February 1, 1975, the company acquired 100% of the outstanding shares of Sterivet Laboratories Limited, a veterinary pharmaceutical manufacturing company. The transaction has been accounted for on the purchase method with the results of operations included in these financial statements from the date of acquisition. The acquisition equation is as follows:

Net assets acquired, at book value	
Current assets	$196,500
Fixed assets	3,800
	200,300
Current liabilities	125,100
Shareholders' equity	75,200
Goodwill on acquisition, being excess of cost of shares over book value of net assets acquired (to be amortized over 40 years)	539,800
	$615,000
Consideration given at fair value	
Cash	$265,000
Issue of promissory note	350,000
	$615,000

4 SALES LICENCES AND DEFERRED RESEARCH AND DEVELOPMENT EXPENDITURES

In January, 1975, the company entered into agreements with an American company to manufacture a drug known generically as "Orgotein" which will be sold in Canada, Japan and certain other markets. In addition, the company has been granted the exclusive licence to sell the drug in Canada.

The terms of the agreements require the company to undertake sufficient testing to obtain the approval of the Health Protection Branch, Ottawa, prior to marketing the drug. The costs related to this program are estimated to be approximately $400,000.

The company may discontinue the further development of this program at any time. However, if it proceeds, it will then share equally the expected expenditures of up to $7,000,000 for patents and manufacturing facilities in return for a 50% interest in a manufacturing venture.

Included in deferred research and development expenditures as at January 2, 1976 is an amount of approximately $73,000 related to the development of "Orgotein".

5 LONG TERM DEBT	January 2, 1976	December 27, 1974
Term bank loan at the rate of 1½% above bank's prime rate, evidenced by demand notes with repayments of $20,000 monthly during 1976 and $28,333 monthly thereafter	$1,286,667	$1,300,000
Term bank loan at the rate of 1½% above bank's prime rate, payable $20,000 annually	42,000	62,000
Non-interest bearing note, payable $350,000 annually	1,050,000	1,400,000
6% Promissory note, payable $70,000 annually commencing June 27, 1976 with annual increase of 1% in the interest rate (note 3)	350,000	
Sundry loans at varying rates and maturites	29,379	62,349
	2,758,046	2,824,349
Less principal included in current liabilities	704,095	603,620
	$2,053,951	$2,220,729

The term bank loans of $1,286,667 and $42,000 and current bank loans and advances amounting to $598,177 are secured by demand first floating charge debentures, an assignment of book debts and the hypothecation and pledge of shares of a subsidiary company. In addition to certain other conditions, the company may not declare or pay dividends on its common shares without the prior consent of the bank as long as the term bank loans are outstanding.

6 CAPITAL STOCK

At January 2, 1976, options on 74,150 common shares were outstanding exercisable at $2.50 to $5.83 per share for periods up to 1980. During the current year, 480 shares were issued for cash of $1,200.

During 1974, the company authorized an executive stock purchase plan to enable senior management to borrow corporate funds for the purchase of shares of the company through a trustee. Amounts totalling $81,250 were advanced in 1974 and $36,125 in 1975. During the current year the trustee purchased 42,500 common shares for a total consideration of $117,375.

Fully diluted earnings per share for the 53 weeks ended January 2, 1976, assuming exercise of the above options, would amount to $.60 ($.55 before extraordinary item).

7 LONG TERM LEASES

The company rents buildings under long term leases which expire at various dates to November 30, 1979, the annual rental for which is approximately $70,000.

8 ANTI-INFLATION ACT

The company is subject to that portion of the Anti-Inflation Act which provides as from October 14, 1975 for the restraint of dividends in Canada.

9 OTHER STATUTORY INFORMATION

During the year the company had seven directors whose aggregate remuneration as directors was $12,500. There were eight officers whose aggregate remuneration as officers was $220,308. Two officers were also directors. In addition, two officers of the parent company received $2,500 as directors of a subsidiary company.

10 COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform with the financial statement presentation adopted for the 53 weeks ended January 2, 1976.

AUDITORS' REPORT
to the Shareholders of Sterisystems Ltd.

We have examined the consolidated balance sheet of Sterisystems Ltd. and subsidiary companies as at January 2, 1976 and the consolidated statements of income, deficit and changes in financial position for the 53 weeks then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at January 2, 1976 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
April 8, 1976

Thorne Riddell & Co.
CHARTERED ACCOUNTANTS

Comparative Summary

OPERATING RESULTS	1975	1974	1973	1972	1971	1970	1969	1968
Revenue	$ 9,049,127	7,675,886	5,638,451	2,874,153	1,802,992	1,086,782	363,686	71,726
Income (loss) before interest, depreciation and amortization and income taxes	2,731,351	2,926,111	2,187,633	1,127,819	776,118	328,140	(133,772)	(71,584)
Cash flow	2,139,973	2,322,431	1,752,494	995,037	647,132	181,192	(155,290)	(74,483)
Profit (loss) for the year	$ 877,943	1,002,059	804,200	451,123	374,520	(9,683)	(251,599)	(90,991)
Earnings per share — fully diluted	0.60	0.70	0.58	0.37	0.39	0.02	—	—
Shares outstanding at year end								
Class A preferred					60,000			
Class B preferred					60,000	60,000	60,000	60,000
Common	1,402,853	1,359,873	1,359,873	1,169,373	720,450	632,850	358,500	318,750
(Adjusted to reflect 3 for 1 stock split, Nov. 24, 1972)								
BALANCE SHEET DATA								
Total assets	$11,475,536	9,733,249	7,810,424	5,526,962	4,498,034	3,474,391	2,385,670	1,030,441
Long-term debt, net of current portion	2,053,951	2,220,729	2,821,349	1,589,969	1,227,100	509,504	1,085,956	
Deferred income taxes	1,769,448	1,267,098	602,190	154,440				
Shareholders' equity	4,722,397	3,725,879	2,723,820	3,005,284	2,683,958	1,318,277	647,910	821,509

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